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The Impact of **Section 24** on buy-to-let landlords in England

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PRIVATE LANDLORDS PLAY A CRITICAL ROLE IN THE DELIVERY OF A FUNCTIONING AND STABLE PRS. POLICIES WHICH RETAIN AND ATTRACT NEW LANDLORDS MUST BE CONSIDERED.

EXECUTIVE SUMMARY

Despite the significance of Section 24, it is not clear how landlords have been impacted or of their future intentions. The English PRS is in a state of flux and this research is important to identify and address the challenges.

The PRS is shrinking, rents are increasing, and pending legislation (e.g. the Renters' Rights Bill) is likely to exacerbate it. There is an urgent need to better understand landlord's challenges and to encourage them to remain within the sector when alternative investments offer lower risks for higher returns. Whilst this report is focused on English landlords, Section 24 impacted other parts of the UK and this report will have wider salience.

RESEARCH PAPER

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Introduction

The Private Rented Sector (PRS) plays an important role in the English housing system, around 19% of households call the sector home (UK Government, 2023a). Over half (57%) of landlords who make up the sector fund their PRS investments via Buy-to-Let (BTL) mortgages (MHCLG, 2022). As such, BTL investors are critical to the success of the sector.

However, the investment environment has become challenging. Inflation increased due to the cost-of-living crisis, causing landlord business costs to spiral. Changes in the legislative and tax burden have also fundamentally altered the risk-return profile.

A series of base rate rises introduced to combat inflation, have led to significant increases in BTL mortgage interest rates. Plus, the phased removal of mortgage interest rate relief under Section 24 of the Finance (No2) Act 2015 (Section 24), resulted in many landlords paying more tax.

English PRS and its landlords

The English private rented sector is dominated by small-scale private investors (landlords) who tend to own a smattering of properties that they view as an investment and operate on a part-time basis. 43% own just one property and 39% own between two and four (MHCLG, 2022).

Whilst we know something about the characteristics of landlords and their investments from the English Private Landlord Survey, as well as via other industry and academic publications, we know less about landlord investment behaviours and the performance of their investments.

There are also gaps in our understanding of landlord resilience levels and in particular, their ability to sustain PRS investments in times of financial difficulty. Landlords are assumed to be universally wealthy.

However, as Watson and Bailey (2021) note: 'while landlords are rarely poor in relative terms, neither are they universally wealthy'.

Many are heavily reliant on their PRS investment as their primary income and the majority pay tax at the basic rate (Agnew (Lord), 2021), based upon all individuals declaring income via Self-Assessment from letting property.

This raises fundamental questions about the ability of some landlords to sustain their PRS investments in economically challenging times. Landlord financial resilience levels were tested during the pandemic and found wanting, with landlords reportedly borrowing heavily (credit cards, personal loans etc.,) to keep investments afloat (Watson & Bailey, 2021). Although this was Scottish-based study, landlords share similar characteristics across the UK. However, little is known about how landlords in England are currently fairing.

The legislative context: **Section 24**

Over the last decade, the English PRS has been subject to several legislative changes. Many of these have impacted the viability of PRS investments, including the introduction of a 3% stamp duty supplement on second homes and buy-to-let properties (UK Government, 2016), the introduction of minimum energy efficiency standards (UK Government, 2017) and the ban on tenant fees (UK Government, 2019) amongst others. Our position paper: *Impact of Tax Changes on the Private Rented Sector* provides additional insights into the tax burden faced by landlords in the sector.

More recently, the sector has been subject to significant uncertainty resulting from the passage of The Renters (Reform) Bill, recently changed by the new Government to Renters' Rights Bill. Our reports 'Reforming the PRS: Letting Agent Views of The Renters (Reform) Bill' and 'Reforming the PRS: Landlord Views of The Renters (Reform) Bill (A companion Report)', provide more detail on the content and implications of the Bill.

Although these changes broadly affect landlords, one further legislative change has impacted buy-to-let landlords. In the summer budget of 2015, Chancellor George Osbourne, announced his intention to limit the ability of landlords to claim tax relief on finance costs including mortgage fees and mortgage interest payments.

> 'We will create a more level playing field between those buying a home to let, and those who are buying a home to live in. Buy-to-let landlords have a huge advantage in the market as they can offset their mortgage interest payments against their income, whereas homebuyers cannot. And the better off the landlord, the more tax relief they get. For the wealthiest, every pound of mortgage interest costs they incur, they get 45p back from the taxpayer.' **(Osborne, 2015)**

However, Osborne noted a further driver. The buy-to-let lending market grew significantly, in tandem with the re-growth of the PRS overall. There were concerns that factors such as 'strong competition between banks' and 'pension reforms' could see the market grow further, posing a risk to 'financial stability' (Bank of England, 2015b, p. 25).

> The actions of buy-to-let investors affect the broader housing and mortgage markets as individuals compete to buy the same pool of properties. Looser lending standards in the buy-to-let sector could contribute to general house price increases and a broader increase in household indebtedness. And in a downswing, investors selling buy-to-let properties into an illiquid market could amplify falls in house prices, potentially raising losses given default for all mortgages.
>
> This could be a particular concern in a rising interest rate environment if properties become unprofitable given higher debt-servicing costs. Buy-to-let borrowers are potentially more vulnerable to rising interest rates because loans are more likely to be interest only and extended on floating-rate terms, and affordability tends to be tested at lower stressed interest rates than owner-occupied lending.
>
> **Bank of England, 2015b, p. 26**

However, when the measure was formalised in Section 24 of the Finance (No2) Act 2015, the stated policy objective focused on tax treatments rather than stability: 'To make the tax system fairer, the government will restrict the amount of Income Tax relief landlords can get on residential property finance costs (such as mortgage interest) to the basic rate of tax. This will ensure that landlords with higher incomes no longer receive the most generous tax treatment. To give landlords time to adjust the government will introduce this change gradually from April 2017 over four years.' **HMRC 2017**

The change was phased in from 6 April 2017 over four years as follows:

TAX YEAR

2017 to 2018:	75% deduction of finance costs
2018 to 2019:	50% deduction of finance costs
2019 to 2020:	25% deduction of finance costs
2020 to 2021:	0% deduction of finance costs

Before the change, landlords could offset the full amount of their finance costs, and after the change, they could only offset costs at the basic rate (i.e., 20%). In practice, this meant that if a PRS property produced a rental income of £15k per annum and incurred £5k in mortgage interest costs, a landlord paying tax at the basic rate would pay £2k in tax before and the same after the change.

However, a landlord paying a higher rate tax would pay £4k before the change, £5k after the change, which is an increase of £1k. This is a heavily simplified example, but it illustrates the point. The legislation also raised the prospect of some landlords being pushed into the higher rate tax banding. In some cases, landlords could also be impacted by a reduction in child benefit payments because of the 'High-Income Child Benefit Charge'.

At the time of its introduction, Propertymark was among a broad range of stakeholders, warning that Section 24 would produce negative outcomes including dwindling supply and increasing rents. However, the UK Government believed that the impact would be minimal. In terms of the broader economic impact, it suggested: 'This measure could marginally reduce demand for housing, but it is not expected to have a significant impact on either house prices or rent levels due to the small overall proportion of the housing market affected and the offsetting impact of wider budget measures.' **HMRC 2017**

In terms of the 'impact on individuals, households, and families', HMRC concluded that the administrative burden associated with change would be 'negligible'. It was further noted that the change would 'impact on those with above average incomes' and therefore have no 'equalities impacts' (HMRC, 2017).

A legal challenge at the time failed, and more recently a petition seeking to reinstate tax relief was rejected as follows: 'The Government will continue to set mortgage interest relief against rental income at the basic rate of tax. The Government has a responsibility to make sure the income tax system is fair.' **UK Government, 2023b**

Economic context

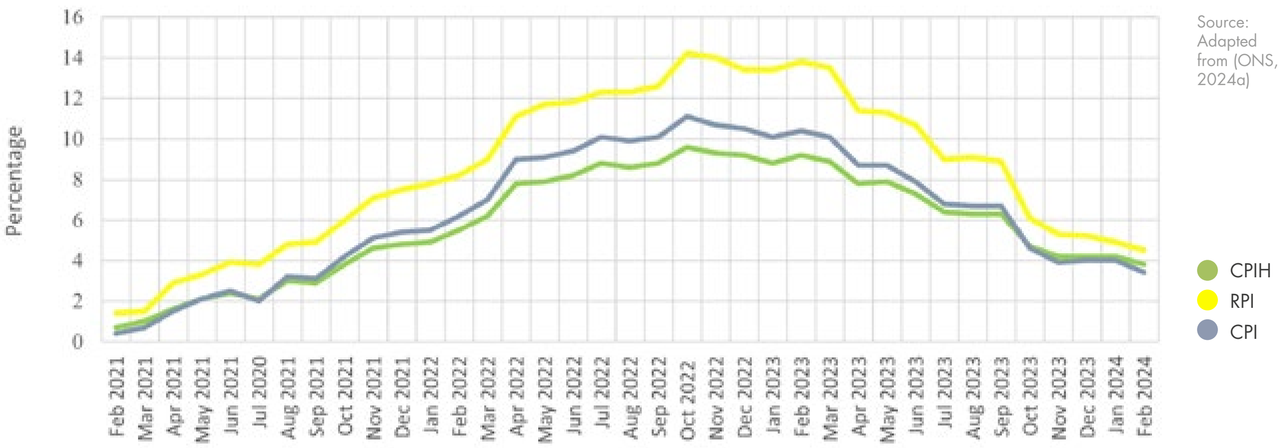
The economic challenges PRS landlords face is significant and has been building for some time. The advent of the pandemic saw the introduction of temporary legislation, which banned evictions and resulted in a dramatic rise in rental arrears (Watson & Bailey, 2021).

The cost-of-living crisis, fuelled partially by the fallout from the pandemic and partially by a host of geopolitical crises, resulted in rampant increases in inflation (Figure 1). The increased costs have affected landlords and tenants alike.

The increased cost of everyday goods and services has placed further pressure on tenants' ability to pay rent. For landlords, inflation has not only increased the business costs associated with landlordism but also impacted their financial resilience and therefore their ability to sustain problematic investments.

Although inflation is now tracking downward, it remains positive (Figure 1) meaning that costs continue to rise but at a lower rate than before. Although, in most cases, earlier rises are 'baked in' and significant challenges remain.

Figure 1: Inflation percentage change (12-month period)



Source: Adapted from (ONS, 2024a)

The extent of the cost increase for landlords can be illustrated using national statics. For example, Figure 2 plots the monthly construction material price indices in the repairs and maintenance category.

As can be seen, the index increased by 35% between January 2020 and February 2024. Significant cost increases have also been observed regarding labour, insurance, and management costs, amongst others.

Figure 2: Monthly construction material price indices (repair and maintenance)

Source: Adapted from Department for Business and Trade (2024)

In the same epoch, interest rates rose dramatically (Figure 3), putting significant strain on landlords with encumbered properties. The changes wrought by Section 24 of the Finance (No2) Act 2015 have compounded the issue.

Figure 3: Bank of England base rate

Source: Adapted from Bank of England (2024)

Given that most landlords achieve net yields of between 3–5% (Scanlon & Whitehead, 2016)* and fixed-rate deposit accounts currently offer better returns with a lower risk profile, the viability of BTL investment is in doubt (this analysis does not account for capital gains (if any).

Figure 4: Residential loans to individuals, Advances- Buy-to-let (Regulated and Non-regulated)

Source: Adapted from Financial Conduct Authority (2024)

Set against this context, data from the Financial Conduct Authority (2024) highlights a significant reduction in new BTL advances to individuals (Figure 4).

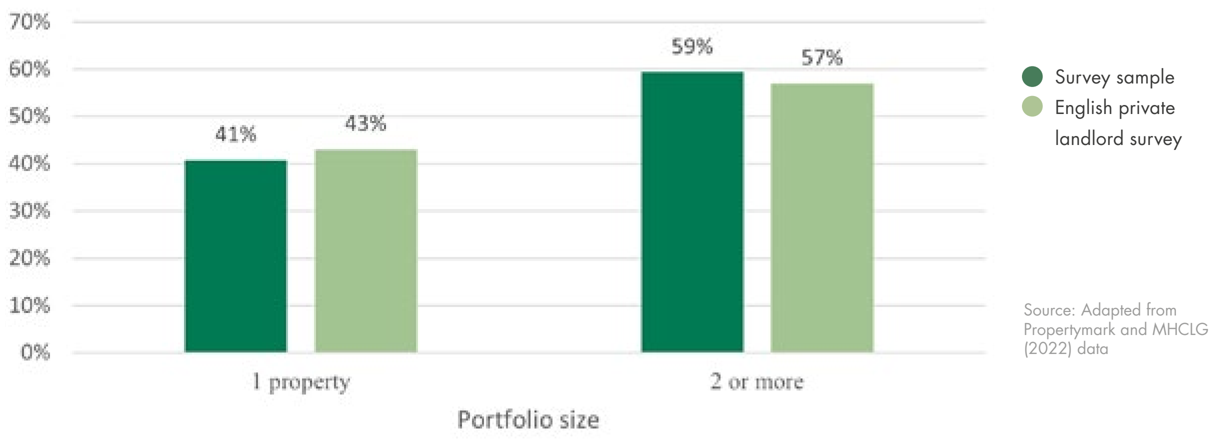
* This data is now aged, but broadly in align with several recent regional studies and industry-based data sources.

Research **design**

The data in this report was obtained via a survey of landlords in England. The survey link was issued to landlords via our letting agent members. In total, we received 1,854 responses. After the removal of duplicates and erroneous entries, there were 1,836 valid responses. The survey covered a variety of areas. However, as this report is only concerned with landlords who have part-funded their PRS investment via a BTL mortgage, responses from unencumbered landlords were removed. This left 1,055 valid responses.

The research used convenience sampling, which is a form of non-probability sampling. The sample is not intended to be representative. However, there is evidence that our sample shares some characteristics with larger studies. For example, in our larger sample, 57% of landlords had bought their property with a mortgage, which is the same percentage found in the English Private Landlords Survey (MHCLG, 2022). Furthermore, 41% of landlords in our sample owned a single property against 43% in the English Private Landlords Survey (Figure 5).

Figure 5: Landlord portfolio size (report sample vs English Private Landlord Survey)



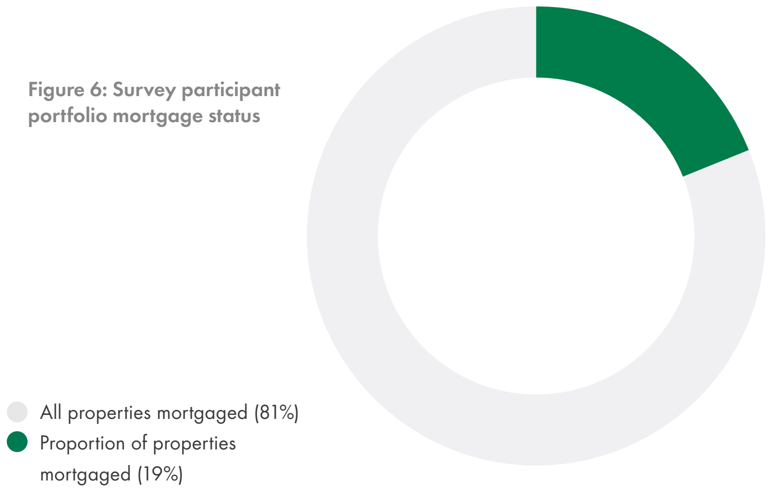
Source: Adapted from Propertymark and MHCLG (2022) data

Mortgage status

This section provides some basic insights into the participants' mortgage status.

In total 81% of landlords had mortgages on their entire portfolio and 19% had mortgages on a proportion of their portfolio (Figure 6).

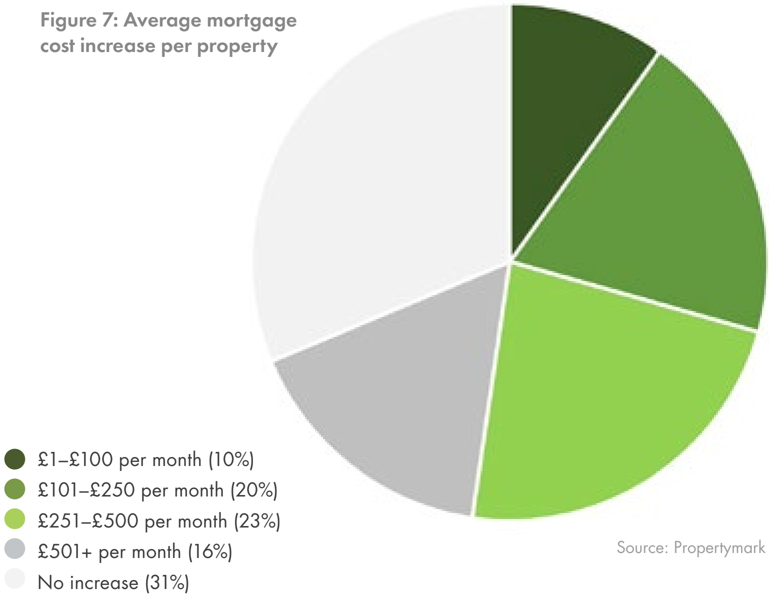
Figure 6: Survey participant portfolio mortgage status



Source: Propertymark

Although some landlords benefitted from being on fixed-rate mortgage deals, over two-thirds (69%) had recently experienced an increase in their monthly mortgage repayment. Around 10% reported an average increase equating to less than £100 a month, one in five (20%) reported between £101 to £250 a month, and almost one quarter (23%) reported between £251 and £500 a month. Astoundingly, 16% reported experiencing an increase equivalent to over £501 per month (Figure 7).

Figure 7: Average mortgage cost increase per property



Source: Propertymark

The quantitative data highlights that the increases have been significant. Using qualitative data, it is possible to contextualise the scale of the increases further:

> I have two rental properties with my wife. The mortgages on both have gone from £300pcm to £750pcm.

> 'Since January 2022 my mortgage interest payments have increased by 360% on both my rental properties.

> Finance costs were fixed at around £15,000 per year before relief. Interest has now increased to £41,000 for the same loans.

LANDLORD INSIGHTS

Landlords were asked to provide their views on Section 24 of the Finance Act 2015. In response, they provided a range of insights over **three key themes**:

01 Landlord Perceptions of Section 24

02 The impact of Section 24

03 Steps taken to mitigate against the impact of Section 24

01 Landlord perceptions of **Section 24**

Landlords overwhelmingly described Section 24 as unfair. Many landlords equated the removal of interest rate relief with being taxed on turnover and not profit.

This is not technically correct, Section 24 allows some relief at the basic rate, additionally, there is a range of non-finance costs that landlords can offset against tax. However, as interest repayments generally make up a sizeable proportion of a landlord's outgoings, it is not difficult to understand why this view persists.

Some examples include:

> 'There is no other business that is taxed on its turnover and not its net profit.'

> 'We are now taxed on turnover, not profit, which doesn't seem right.'

> I now pay tax on gross rent. I pay tax on money that is not profit and the money doesn't actually exist in my account. Every year I pay this and each year it becomes more obvious how insane this is. Using my personal income to pay tax as the money I am taxed on doesn't exist.

"Businesses usually pay tax on profit not on income, which I think is really unfair to landlords. It does not surprise me that landlords are selling up and leaving the sector."

Additionally, many landlords view the PRS as businesses and suggest that Section 24 is unfair due to the disparate treatment of the PRS in comparison, where tax relief can be claimed on finance costs:

> 'I can't deduct mortgage interest - taxes on revenue rather than profit, which is manifestly unfair and inequitable compared to every other sector.'

> 'Whilst I have no issues with paying tax, the unequal tax rules compared to other businesses is grossly unfair.'

> 'The private letting market is the only sector that I know of where the legitimate costs and expenditure of running and managing the business cannot generally be claimed against tax. Letting a property is a business not a charity.'

> 'It has almost rendered the business pointless as I'm struggling to make a profit. Any other business can deduct finance costs.'

> 'Every other business model in the country has the right to deduct the majority of their financial outgoings before tax is deducted, and this is a time-honoured way to run a business.'

> 'The majority of profit on income is now removed from property assets and so it is really only capital growth which remains. Given that other businesses get to claim back costs of interest on loans, this does seem very unfair.'

Some landlords were particularly irked that finance costs were treated differently in the furnished holiday lets sector.*

"The difference in tax treatment between rental properties and furnished holiday lets is illogical and unfair."

Others noted the disparity in treatment between landlords who chose to operate as sole traders and those who chose to operate as limited companies:

> 'This change makes it look like I'm making more profit, but actually I'm worse off under this legislation. This is grossly unfair when you consider it's possible to work around this by putting a property in a ltd company.'

> 'Mortgage costs are the most significant, not just in terms of cost, but in terms of fairness. Ltd Companies can claim back costs of finance, but not privately owned properties.'

> 'This is putting non-corporate landlords at a distinct disadvantage over incorporated.'

Others noted the disparity in treatment between landlords who chose to operate as sole traders and those who chose to operate as limited companies:

> 'It is an unfair provision targeting private landlords and gives an unfair competitive advantage to corporate landlords and the large corporate BTR operators most of whom seem to be owned by the large corporate house-builders, private equity players, pension funds etc.'

Finally, one landlord highlighted the disparity in the treatment of finance costs between residential and commercial property investments:

> 'I find it unjust to say the least, if you were renting a retail unit, these costs are deductible, it's the same.'

* It should be noted that this will change in 2025, when FHLs are aligned with Section 24.

02 The Impact of **Section 24**

REDUCE INVESTMENT VIABILITY

As a result of Section 24, several landlords reported that they were concerned about the financial viability of their PRS investments:

> 'I'm massively affected by not being able to claim all the interest payment deduction. This questions whether this portfolio remains financially viable.'

> 'A number of my properties are borderline whether they make a profit now or a loss. One boiler or roof repair and they will easily make a loss, but still cost me significant sums in taxation solely due to Section 24.'

Several landlords reported that their PRS investment profit levels had reduced or no longer made any profit at all:

> 'I'm close to breakeven on rental income profits.'

> 'I'm at the point where I make no profit at all from rental income.'

> 'I make zero profit from this [being a landlord] and it takes up a lot of time and effort.'

Concerningly, others were in a loss-making position:

'By the time the mortgage and tax is paid I am in a deficit monthly.'

> 'The rent is no longer sufficient to cover the outgoings.'

> 'Income from property, minus mortgage and tax means we are now in a deficit and make no profit from these properties.'

> 'I have mortgages on all my properties as it was tax advantageous to do so, they took this away and with increased mortgage rates the rent does not cover my outgoings!'

"Mortgage interest cannot be taken off from rents (before tax), so a huge difference in values especially after the BoE interest rate hikes. My costs are now more than my income, so I am losing money from my personal savings."

FINANCIAL AND NON-FINANCIAL IMPACTS

Given the break-even and loss-making positions being sustained, it is not surprising that some landlords reported being '*financially squeezed*', under '*financial stress*', or in '*financial hardship*' because of Section 24. Although the severity of impacts differed, several landlords suggested that their living standards had been compromised:

> 'The reduction in allowable expenses has impacted our overall family income meaning our standard of living has been negatively affected.'

> 'We have faced increased taxes reducing our income, and as pensioners, has reduced our living standard.'

> 'My husband is retired on State Pension, and I only get PIP payments and a very small private pension. However, because of the rental income being taxed, my husband's pension has also decreased due to the tax charges on income. All in all, we are paying out more in mortgage and tax, and add the cost-of-living crisis to this, we are really feeling the squeeze.'

Others were struggling to pay bills:

> 'I now barley make any profit and it's easy to make a loss overall eating into quality of life for me and my family. I am in a position where there are certain bills and life necessities, I am now unable to pay. My children are the ones suffering the most.'

> 'We are in a critical situation. After saving for years to invest in property we are now looking at a loss and have credit agreements we cannot meet.'

Overall, the situation faced by some appeared perilous:

> 'Non-tax deductible means I am losing £50,000 per annum to keep my portfolio. MPs don't care that they are destroying my portfolio, my pension and me.'

> 'My mortgage payments have increased so much that I need to sell at least one of my properties, but it is not possible to do without a loss in the current environment. My mortgage payments are higher than my monthly income, so with all the additional costs I'm in major financial distress at the moment.'

"It has introduced considerable financial stress and the basis on which I made decisions for these investments were torn to shreds placing me in a very difficult position."

HIGHER TAX BANDINGS AND REDUCED CHILD TAX BENEFIT

As countenanced earlier, some landlords had been pushed into a higher tax banding because of the legislation:

> 'We have gone into a higher tax band, but our net income is minimal and vastly reduced.'

And some had also been impacted by a reduction or total loss of child benefit payments:

> 'As we were borderline tax brackets, section 24 pushed both my husband and I into 40% tax, also resulting in total loss of child benefit.'

03 Steps taken to mitigate against the **impact of Section 24**

A range of strategies could be adopted so landlords can mitigate against the impacts of Section 24.

These include transferring ownership of a PRS property to a spouse or partner in a lower tax banding, transferring property into a limited company (incorporation), paying down mortgages, selling one or more properties, reducing costs, or increasing rents, amongst others.

Each option has strengths and weaknesses, and not all will be palatable or feasible for all landlords. In the subsections below we explore some of the mitigation strategies that were selected by landlords in our sample.

INCORPORATION

Several landlords reported that they had transferred ownership of the properties to a limited company. For example:

> 'My property was all held in personal names, so my tax bill was considerably higher to the point where it was almost a pointless investment. I now have 3 property limited companies and have rearranged my property holdings to keep my income below the higher tax rate band.'

The post Section 24 shift to incorporation has been so pronounced, that Paragon Bank (2023), a BTL mortgage provider, report that the 'overwhelming amount of business' they now receive comes from limited companies and not individuals.

There are,several challenges associated with incorporation, not least of which is the observation that it can be a costly affair. This is due in part to Capital Gains Tax (CGT) and Stamp Duty Land Tax (SDLT) implications, as well as the ongoing costs of running a limited company.

As one landlord explained:

"Since the announcement of Section 24, we have been moving properties into limited companies-this is effectively a sale, so has been an extremely expensive process."

Another opined:

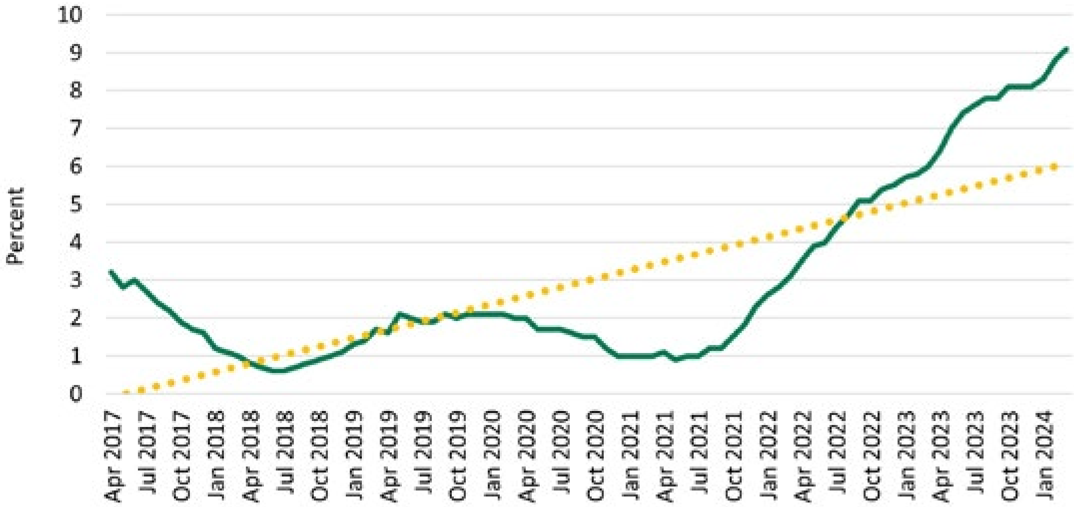
"I have spent a fortune to incorporate."

INCREASE RENTS

As noted earlier, Propertymark predicted from the outset that rent increases would be a byproduct of the introduction of Section 24.

Figure 8 demonstrates rent inflation took off when increased tax payments became due.

Figure 8: PRS average rent annual inflation



Source: Adapted from ONS (2024b)

However, rent increases are driven by a broad range of factors and it is difficult to identify the extent to which increases are directly attributable to Section 24. Regardless, the qualitative data provided by landlords suggests that Section 24 has had an impact.

For example, some landlords noted that they planned to increase rents as a direct result of Section 24:

> 'Mortgage costs can no longer be deducted; in the long term the extra financial burden will be passed on in rent increases.'

> 'The section 24 adds about £300 a month cost to my single property. I have no choice but to pass this on to the tenant with a rent increase.'

> 'It is forcing costs to be passed on to tenants when I'd rather keep rents at the same level.'

In other cases, landlords had already increased rents because of Section 24, often reluctantly:

> 'For the first time in many years we have had to increase the rent on two properties each with tenants with mental health issues. Other properties with single-parent families have also had increases.'

> 'Obviously I've just had to put up rent to compensate for the declining offset of mortgage relief...'

> 'My net profit is now substantially lower, and I had no option but to increase the rent to balance this.'

> 'Paying extra tax has caused financial stress, which has then had to be forwarded on to the tenants'.

> 'This [Section 24] has meant I have had to reluctantly increase rents - although I have limited these as much as I can.'

> 'My small profits have deceased/disappeared due to a higher tax burden and as such, the rent charged per property has increased for the renter. Section 24 has jointly negatively impacted the landlord and tenant.'

A few landlords highlighted that rent increases were necessary not just because of Section 24, but also due to increasing business costs including mortgage interest payments:

> 'We have tried to keep our tenant's rent low, but this [Section 24], combined with the mortgage rate increases, means our income from the property has reduced greatly. We will have to follow suit with many landlords and increase the rent.'

> 'Combined with increased mortgage rates, this has resulted in us having to significantly increase rent in order to breakeven.'

> The scale of some of the rent rises appears to be significant: 'I've had to increase rents significantly, an example, one rental was £675 per month and is now £980.'

> 'Aggressive rental increases have been necessary as a result [of Section 24], when I would rather compromise to earn a good income while helping hard-pressed renters.'

REDUCED MAINTENANCE, REPAIR, AND REFURBISHMENT BUDGETS

As highlighted earlier, Section 24 reduced the surpluses produced by many PRS investments. It is therefore not surprising that landlords reported having less funding to allocate to property improvement:

> 'The properties cash flow less well, which affects being able to afford to improve or renovate them.'

> 'There's a lot less cash to improve quality and service rental properties.'

> 'It has made letting marginally profitable and in turn has affected how often the properties are being refurbished (which affects the quality of accommodation for the tenants).'

There is also less funding available for realising energy efficiency improvements:

> 'The increase in tax means we are not able to reinvest so much on improvements to our properties, i.e. increased insulation and energy efficiency measures.'

> 'There is less cash flow to spend on renovations including energy proficiency for the property as more is spent on tax.'

Worryingly, basic property repair and maintenance budgets have also been impacted:

> 'We can no longer afford to spend money on the maintenance of the building.'

> 'I have less money to keep the property maintained.'

> 'There's a lower income for me and to keep properties well maintained.'

> 'My tax bill has risen significantly and at the same time as my interest repayments have risen and I am now paying tax on turnover & not profit, this means that there is less money for repairs and maintenance.'

> 'It has greatly reduced capacity to invest in upgrades, even maintenance.'

> 'I have increased earnings and therefore tax bills leaving less money for maintenance…'

> 'I would normally maintain my properties to a higher standard than the market level. However, I have not had the funds to do this due to the discriminatory taxation.'

> 'It [Section 24] has made my small business unprofitable, and means I am unable to make necessary improvements to the property for the safety and comfort of my tenants.'

SWITCH TO FURNISHED HOLIDAY LETS

A few landlords considered responding to Section 24 by removing their properties from the PRS and transferring them to the Furnished Holiday Let (FHL) sector where tax relief could be claimed:

> 'Some properties are now not viable, so we will either sell them or change them to holiday lets. You can claim all the interest back, no council tax to pay, easy laws etc, etc.'

In some instances, landlords had already made the switch:

> 'Higher taxes have necessitated operating some properties as FHL to maintain profit, although profit margins are reduced.'

It should be noted that the benefits of switching sectors will be short-lived. The treatment of finance costs for FHLs' is set to change in 2025.

FIX/REDUCE MORTGAGE DEBT

A few landlords had attempted to combat the impact of Section 24 by fixing their mortgage rates:

> 'We have managed to offset some of this [increased tax liability] by increasing rents and mitigate some by fixing mortgage rates.'

However, this option was not available to all landlords due to the performance of some investments:

> 'Specifically, two of my five rentals—three of which are mortgaged—are unprofitable and one is barely profitable, so in short, 3 of 5 do not yield enough to qualify for remortgage...'

A few landlords had taken a different tack and had sought to reduce the outstanding balance(s) on their existing PRS mortgages. In some instances, landlords were able to pay off their mortgages entirely with non-PRS funds:

> 'I paid off the mortgages with other funds.'

> 'We were forced to use savings to pay off our mortgage to ensure the returns were worthwhile.'

More often, landlords had sold part of their PRS portfolio to pay down mortgages on their remaining properties:

> 'We have been selling properties to reduce mortgages, because of Section 24. We knew interest rates would increase at some point and the effect Section 24 would have.'

"We are selling one flat to pay the mortgages off for another two and reducing the mortgage of a third flat reducing the letting stock for renters."

> 'I had 3 properties and sold one to pay off all 3 mortgages because of Section 24, I was having to pay the cost of finance out of income because it wasn't tax deductible. This made my business not viable until I had sold the 6 bed HMO in East London to pay off the mortgages.'

> 'It is now unviable to run a BTL business, so we will be selling all but one, which we hope to retain towards our pension income, and it will hopefully be mortgage-free when the other rentals are sold.'

SELL PROPERTIES AND EXIT THE SECTOR

The previous section highlights that, a proportion of landlords are reducing the size of their portfolios because of Section 24. However, our report- 'Reforming the PRS: Letting Agent Views of The Renters (Reform) Bill', identified that some landlords are leaving the sector completely. Whilst the reasons landlords leave is multifaceted a large proportion of landlords in this study pointed to Section 24 as a key factor.

It is clear from the responses received that landlords were at differing stages in their decision to sell their PRS investments and exit the market. Some were at the beginning of the process, reflecting on their position as landlords:

> 'There are massive tax implications to the running of the property. Like a lot of landlords, you have to ask, is it worth doing it?'

> 'The financial position at the end of the tax year is no longer attractive and therefore means you consider your position as a landlord.'

Others were actively considering selling:

> 'It [Section 24] has made the viability of owning the rental property questionable. Hence, I'm considering removing them from the rental market.'

> 'The inability to deduct interest payments as expenses mean return on capital falls below 3%, investing money in other investments than BTL is more profitable, so I'm considering selling some BTLs.'

> 'My tax bill has gone up significantly along with increased mortgage payments. I'm considering selling properties as it's becoming financially unviable.'

Several believed that they had no option but to sell:

> 'I am making a loss on the flat, can't cover running costs, I will need to sell.'

> 'We are now making a loss and therefore have no option but to sell. Most of my tenants have been with us 10 years plus and we have a really good relationship with them, and most are pensioners or single mums.'

Amongst those who had decided to sell, it was common for sales plans to align with a specific event or timescale. For example, some landlords planned to sell at the natural expiration of existing tenancies:

> 'As soon as a property becomes vacant, I'm selling everyone.'

> 'With the rise in mortgage rates and the implications of Section 24, there is no further future in my continuation of providing rental property. I will sell up as properties become vacated.'

> 'The return on our investment is so low that we see no benefit in continuing in the sector and will be selling properties as they become vacant.'

In other instances, landlords intended to sell when their fixed-rate mortgage deals ended:

> 'Will likely lose money after costs and tax… once the fixed rate mortgage ends, it is likely we will need to sell.'

> 'My tax exposure has gone up yet unlike every other business, I cannot deduct what I would consider a valid expense (mortgage interest). I'm ultimately going to evict the tenant and sell the property when the mortgage comes up for renewal.'

> 'Being unable to claim anything against the cost of mortgage interest on all rental properties, product arrangement fees where appropriate, etc., have caused major problems in affordability… We have already started to dispose of some of our properties and intend to continue with disposals as their current fixed rate deals expire in the next few months.'

Some landlords were already in the process of selling:

> 'I am now selling property as it's no longer viable to rent them out. I have lost my income from my property – it's no longer a good investment.'

> 'This means it is no longer viable for me to rent out the properties I own and rent so I am in the process of selling them. I am a really responsible and lovely landlord, and I don't hike up the rents, but I can't subsidise people in need unfortunately with personal costs rising too.'

"All headroom has disappeared, so not being able to cover new mortgage rates, I'm selling all my properties in a fire sale."

As mentioned in the previous section, some had already sold:

> 'The changes [Section 24]… have driven me to empty and sell all 4 of my properties.'

> 'I decided to sell the property as mortgage interest costs no longer deductible, therefore not encouraged enough to grow portfolio as private landlord.'

SELL PROPERTIES AND EXIT THE SECTOR

Before the introduction of Section 24, several landlords had planned to further invest in the sector by expanding their portfolios. However, because of Section 24, those plans changed:

> 'I've stopped any further investment in lieu of… [mortgage interest rate relief] having been removed.

"I would have bought more properties to let if able to deduct loan interest."

Conclusion

The introduction of Section 24 was predicated on a need for fairness in the tax system and a need to reduce the risk of financial instability posed by the growing buy-to-let sector. However, the landlords we surveyed overwhelmingly reported that the change was unfair and there were alternative solutions for tackling instability (see (Bank of England, 2015a)). Overall, this paper finds that the introduction of Section 24 has had wide-ranging consequences for the sector, its landlords and its tenants, most of which were not considered in HMRC's policy impact summary (2017).

The measure pushed some landlords into higher tax bandings and has reduced the financial viability of existing investments, with many reporting breaking even or being in loss-making positions. In some cases, landlords appear able to withstand the financial impact, whereas others have much lower levels of financial resilience. As a result of the measure, those in the latter category have seen their living standards compromised, have struggled to pay bills, and in some cases, appear to be in a precarious financial position.

The financial predicament landlords face cannot be solely attributed to the introduction of Section 24. The rapid rise in mortgage interest rates and the cost-of-living crisis have played a role. However, Section 24 has had a substantive impact on many BTL landlords.

Landlords have adopted a range of strategies to respond to the challenges presented by Section 24. Incorporation has been popular, but this process and the ongoing administrative requirements necessitated by owning a limited company pose their financial and resource implications. Many landlords rent increases had already done so to address not only their increased tax liability but also increased business costs. Implications for tenants already facing a broader cost-of-living crisis are clear.

Maintenance budgets have also been reduced, often unintentionally because of reduced cash flows. The implications here are stark. For the landlords, there is a risk that a lack of maintenance could impact upon the saleability and rentability of properties. There is also the prospect of small, relatively minor unattended repairs, becoming large and costly repairs in the future, as well as the potential for dangerous conditions to arise. For tenants, there is the possibility of suboptimal conditions in a sector, which is already lambasted for poor conditions in some parts. The lack of funds also has ramifications for the ability of landlords to fund the energy efficiency improvements that will ultimately be required to achieve net zero.

Landlords have also sought to reduce mortgage costs either by switching products (where possible) or by paying down existing debt. In some cases, the latter was enabled by selling one or more properties, thereby reducing landlord portfolio sizes. It is not clear if these properties remained in the PRS, however, some likely reverted to owner occupation, thereby reducing the size of the sector. More extreme, many landlords have decided to avoid the ongoing tax implications of Section 24 by selling up and leaving altogether. Whilst an ageing landlord cohort, concerns about the Renters (Reform) Bill (Watson, 2024), and the availability of better investments (lower risk and higher return) elsewhere are undoubtedly contributing to the mix, Section 24 is a key decision-making factor for buy-to-let landlords. In a further blow to the sector, some landlords have reneged on plans to expand their portfolio and others have chosen to relocate their properties to other markets. The net effect is a reduction in properties.

It is clear the repercussions of Section 24, including the reduction in supply and increased rents, will resonate throughout the sector for some time.

Recommendations

We recognise the critical role that private landlords play in the delivery of a functioning and stable PRS and recommend that policymakers consider policies which attract new and retain existing landlords within the sector.

As noted earlier, the Conservative Government (2023b) confirmed plans to continue setting 'mortgage interest relief against rental income at the basic rate of tax'. The broad range of impacts identified in this report should see the now Labour Government revise any plans. Policymakers should also commit to a wider review of taxes relating to private landlords, to promote long-term investment in the sector. Specifically, taxes on additional properties and capital gains tax thresholds should be reduced. Policymakers should also consider easing the transition to incorporation for existing landlords by removing stamp duty on PRS properties transferred into limited companies.

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